

# Bob Brinker's **Marketimer**

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"Time is the coin of life. It is the only coin you have, and only you can determine how it will be spent. Be careful, lest you let other people spend it for you."

... Carl Sandburg

## **STOCK MARKET TIMING UPDATE**

**DJIA: 8480.09**

**S & P 500: 916.92**

The **Marketimer** stock market timing model continues to project a cyclical bull market from the area of the closing Standard and Poor's 500 Index March 11 price level of 800.73. This suggests the Standard and Poor's 500 Index has the potential to exceed the 1000 level within a period of one to three years. However, in order to maximize upside potential, we recommend against chasing rallies in order to invest new money. In the event another test of the area of the bear market lows occurs below the 810 price level for the Standard and Poor's 500 Index, we would regard such weakness as an additional buying opportunity. Alternatively, a gradual dollar-cost-averaging approach during periods of stock market weakness allows for investment into the market, keeping in mind the market may well remain volatile in the months ahead.

We have seen improvement in several of our primary stock market timing model indicators, and our key long-term gauges signaled the probability of a cyclical bull market on March 11. Here is a summary of our stock market timing indicators and their current readings:

**Economic Cycle:** The combination of strong fiscal stimulus and an accommodative monetary policy should provide the building blocks for improved economic growth by later this year, in our view. The overall level of U.S. stock market risk has been reduced by the recent improvement in geopolitical conditions. The "war risk" premium has been eliminated from the oil market, and a new stream of Iraqi oil should be available before the end of the year. Although it may take several months for more favorable economic data to become apparent, we believe the probabilities favor better economic activity by yearend and into 2004. 2004 is most important, as stock prices discount future earnings prospects, and therefore can begin to reflect improvement in 2004 earnings well in advance of the fact.

**Monetary Policy:** The Federal Open Market Committee is likely to maintain the current highly accommodative monetary stance until definitive signs of economic improvement become evident. Although year-over-year consumer price inflation stands at 3%, this number reflects the pre-war runup in oil prices, which has subsequently been reversed as a result of the dissolution of the war premium. The core index of inflation, excluding the volatile food and energy components, stands at an extremely low level of 1.7%. This provides the Federal Reserve with the freedom to continue their "easy money" policy, without regard to inflation concerns at this time.

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**Valuation:** The stock market is a forward looking mechanism, and the general rule is that investors begin to look ahead to next calendar year earnings prospects during the summer months. Based on the **Marketimer** estimate of \$52.00 for Standard and Poor's 500 Index operating earnings for 2004, the index now trades at a price/earnings ratio of 17.6. We believe there is modest upside potential in both the P/E ratio and the forward earnings outlook. On a valuation basis, we continue to rate the market attractive for purchase anytime the Standard and Poor's 500 Index dips below the 810 level.

**Sentiment:** The rally from the March 11 Standard and Poor's 500 Index closing low for the year of 800.73 has led to deterioration in our sentiment indicators. The four-week moving average of bulls as a percentage of bulls plus bears, as measured by **Investors Intelligence**, is solidly in neutral territory at 60%. The percentage of stock market cash reserves held by equity mutual funds remains unimpressive. However, these numbers would likely improve in the event the Standard and Poor's 500 Index returned to the area of the prior bear market lows for any reason.

We expect another tax reduction proposal to become law by this summer. Also, lower oil prices should provide further stimulus to consumer spending into the second half of this year. Lower oil prices act as a tax cut for consumers, as reduced energy costs free up cash-flow for other purposes. The U.S. economy has been in a state of malaise since 2001, and the process of moving back in the direction of economic growth accompanied by jobs growth is both gradual and painstaking. In this case, the next economic recovery will follow one of the greatest stock market bubbles of all time, which ended during the first quarter of Year 2000 in the form of a "New Era" mania.

The expectation held by many bears regarding the outlook for oil prices did not materialize. There was widespread concern that Mideast oil supplies would be disrupted as a result of the war in Iraq. However, the rich oil fields within Iraq were secured and protected throughout the brief conflict, thereby guaranteeing a huge source of future wealth for Iraq. These positive developments resulted in a major decline in oil prices, and the removal of a major risk for investors going forward.

## SARS

The newest exogenous risk for investors to deal with is Severe Acute Respiratory Syndrome. The good news regarding SARS is that only a few dozen cases have been confirmed within the United States, and therefore the epidemic has not had a material impact on the domestic economy to date. The bad news is that this is one of the worst epidemics to strike Southeast Asia in the modern era. SARS has had a significant effect on everyday life in many countries, especially China, Hong Kong and Singapore. In addition, it has caused concern in Toronto, Canada due to the introduction of the disease by one individual returning from mainland China.

We view SARS as a wildcard on the global economic landscape. The eventual outcome will be a function of the ability of the epidemiologists to control its spread, and the ability of the medical science community to develop an effective remedy. Global awareness of the SARS risk offers the hope that the situation can be controlled. However, it is fair to say that SARS is causing the most severe economic crisis in Southeast Asia since the wave of currency devaluations and bank failures there in the second half of 1998. Along with SARS, the fear of SARS has crushed Southeast Asian businesses connected with air travel, hotels, restaurants and leisure time activities. The dominant airline in Hong Kong, Cathay Pacific, has lost over two-thirds of its business year-over-year. The airline has suggested it may ground its entire fleet if the crisis worsens in the region.

## FEDERAL RESERVE POLICY UPDATE

Now that President Bush has endorsed Alan Greenspan for reappointment to the Federal Reserve chairmanship next year, the Federal Open Market Committee can focus on what remains in their monetary toolkit to support future economic expansion. Core inflation remains dormant at 1.7% year-over-year, therefore the Federal Reserve is in a position to provide as much monetary stimulus as necessary in order to get the economy growing at its potential rate of 3% to 3.5% by next year.

We believe the Fed is likely to use open-market operations to purchase U.S. Treasury securities if they decide to go beyond the traditional approach of simply lowering short-term interest rates. Although they will not take short-term rates to zero, they could reduce rates by another 50 to 75 basis points if necessary. We expect core inflation to remain benign going forward. In addition, we believe there is a good chance the nominal consumer price index will be stable to lower compared to the current reading of 3%.

Oil prices have moved sharply lower in recent weeks, and this should result in lower energy prices going forward. Iraqi oil exports could resume during the second half of this year, thereby increasing the potential supply of crude oil worldwide. OPEC efforts to control world oil prices have become less effective as new major oil producing countries, such as the Russian Federation, have become major suppliers. Russia has massive oil producing potential over the long-term.

Monetary growth figures remain steady with the Federal Reserve's support of monetary ease unwavering in anticipation of an improving economy later this year and into 2004. The monetary base shows real year-over-year growth of 3.6%, versus 4.1% last month. The narrowly defined M-1 money supply, which consists primarily of currency in circulation and demand deposits, shows year-over-year real growth of 1.7%, versus 1.3% last month. The more broadly defined M-2 money supply aggregate shows year-over-year real growth of 4.8%, versus 4.2% last month. The Federal Reserve is doing its job of providing liquidity to the economy.

### Latest Monthly Data

(\$ billions)	March 2003	March 2002	Y-O-Y Changes	Real Y-O-Y* Changes
Monetary Base	\$ 707	\$ 663	+ 6.6%	+ 3.6%
M-1	\$ 1,222	\$ 1,167	+ 4.7%	+ 1.7%
M-2	\$ 5,894	\$ 5,469	+ 7.8%	+ 4.8%

\* Real changes year-over-year, adjusted for consumer price index increase of 3% for the 12-month period through 3-31-03.

### MODEL PORTFOLIO III CHANGES

We are further diversifying the fixed-income portion of model portfolio III by adding Dodge and Cox Income Fund to the portfolio effective at the close on Friday, May 9. The following changes are effective on that date:

- SELL:** 10% Vanguard Inflation-Protected Securities Fund (VIPSX), reducing this holding from 25% to 15% in model portfolio III.
- SELL:** 5% Vanguard Ginnie Mae Fund (VFIIX), reducing this holding from 25% to 20% in model portfolio III.
- BUY:** 15% Dodge & Cox Income Fund (DODIX), establishing this new position in model portfolio III.

There are no other changes to the **Marketimer** model portfolios at this time.

BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.*	SIZE	% Total Return						\$1000 INV. 1-1-98=	EST. <sup>a</sup>	TEL.	ANN. <sup>b</sup>	PRICE
	OBJ.	MIL.\$	'98	'99	'00	'01	'02	'03 (4-30)		YD.	SWCH	EXP.	4-30-03
Baron Growth Fund 767 Fifth Avenue 49 <sup>th</sup> Floor New York, NY 10153 800-992-2766 <u>www.baronfunds.com</u>	G BGRFX	\$1015	0.1	44.7	(4.6)	12.7	(12.3)	3.6	\$ 1415	0.0%	#	1.40%	27.86
Baron Small Cap Fund 767 Fifth Avenue 49 <sup>th</sup> Floor New York, NY 10153 800-992-2766 <u>www.baronfunds.com</u>	CGA BSCFX	\$ 731	2.2	70.8	(17.5)	5.2	(9.7)	8.4	\$ 1483	0.0%	#	1.39%	14.49
Gabelli Asset Fund One Corporate Center Rye, NY 10580 800-422-3554 <u>www.gabelli.com</u>	G GABAX	\$ 1532	15.9	28.5	(2.4)	0.2	(14.3)	3.2	\$ 1288	0.0%	Yes	1.37%	29.16
TIAA/CREF Equity Index 730 Third Avenue New York, NY 10017 800-223-1200 <u>www.tiaa-cref.org/mfs</u>	Russell 3000 TCEIX	\$ 225	---	---	---	(11.6)	(21.5)	4.8	---	1.0%	Yes	0.26%	6.53
TIAA/CREF Growth&Income 730 Third Avenue New York, NY 10017 800-223-1200 <u>www.tiaa-cref.org/mfs</u>	G&I TIGIX	\$ 542	30.5	24.5	(7.3)	(13.4)	(23.9)	4.2	\$ 1034	1.0%	Yes	0.43%	9.45

\* Investment Objective Codes: CGA = Capital Gains Aggressive; G = Growth; G&I = Growth & Income

a) Estimated annual yield represents approximate investment income for last 12-months expressed as percentage of fund assets.

b) Annual expense ratio reflects investment advisory fees and other expenses expressed as percentage of total fund assets.

# Telephone redemption available.

**BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS**

<u>FUND</u>	INV.* <u>OBJ.</u>	SIZE <u>MIL.\$</u>	<u>% Total Return</u>						<u>\$1000 INV. 1-1-98=</u>	EST. <sup>a</sup> <u>YD.</u>	TEL. <u>SWCH</u>	ANN. <sup>b</sup> <u>EXP.</u>	PRICE <u>4-30-03</u>
			<u>'98</u>	<u>'99</u>	<u>'00</u>	<u>'01</u>	<u>'02</u>	<u>'03</u> (4-30)					
Dodge & Cox Stock 1 Sansome St. (35th Fl.) San Francisco, CA 94104 800-621-3979 <u>www.dodgeandcox.com</u>	G&I DODGX	\$ 15780	5.4	20.2	16.3	9.3	(10.5)	1.4	\$ 1462	1.7%	#	0.55%	88.90
Dodge & Cox Balanced 1 Sansome St. (35th Fl.) San Francisco, CA 94104 800-621-3979 <u>www.dodgeandcox.com</u>	G&I DODBX	\$ 8450	6.7	12.0	15.1	10.0	(2.9)	2.3	\$ 1503	3.1%	#	0.53%	61.69
Vanguard Calvert Social Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739 <u>www.vanguard.com</u>	Social Index VCSIX	\$ 114	---	---	(9.0)	(14.1)	(24.2)	5.8	---	0.8%	Yes	0.25%	6.16
Schwab 1000 (R) 101 Montgomery St. San Francisco, CA 94101 800-266-5623 <u>www.schwab.com/funds</u>	G SNXFX	\$ 3307	27.1	21.0	(8.2)	(12.3)	(21.2)	4.7	\$ 1022	1.1%	Yes	0.46%	26.03
Vanguard Balanced Index Fund P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739 <u>www.vanguard.com</u>	G&I VBINX	\$ 3088	17.8	13.6	(2.0)	(3.1)	(9.5)	3.8	\$ 1194	3.0%	No	0.22%	16.14
Vanguard Index 500 P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	S&P 500 VFINX	\$ 59145	28.6	21.1	(9.1)	(12.0)	(22.1)	4.8	\$ 1017	1.5%	No	0.18%	84.73

R) 0.50% redemption fee on shares held less than six months.

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BOB BRINKER'S RECOMMENDED LIST OF NO-LOAD FUNDS

FUND	INV.*	SIZE	% Total Return						\$1000 INV. 1-1-98=	EST. <sup>a</sup> YD.	TEL. SWCH	ANN. <sup>b</sup> EXP.	PRICE 4-30-03
	OBJ.	MIL.\$	'98	'99	'00	'01	'02	'03 (4-30)					
Vanguard Index (x) Extended Market Portfolio P.O. Box 2600 Valley Forge, Pa 19482 800-662-2739	Index VEXMX	\$ 2720	8.3	36.2	(15.5)	(9.2)	(18.1)	4.8	\$ 971	1.1%	No	0.25%	19.63
Vanguard Index (x) Small Cap Stock Portfolio (address/phone above)	Russell 2000 NAESX	\$ 3012	(2.6)	23.1	(2.7)	3.1	(20.0)	4.4	\$ 1005	1.4%	No	0.24%	16.35
Vanguard Index Total Stock Market Portfolio (address/phone above)	Wilshire 5000 VTSMX	\$ 15924	23.3	23.8	(10.6)	(11.0)	(21.0)	4.8	\$ 1006	1.4%	No	0.20%	20.96
Vanguard International Growth Portfolio (address/phone above)	Non USA VWIGX	\$ 4864	16.9	26.3	(8.6)	(18.9)	(17.8)	1.5	\$ 913	1.8%	Yes	0.52%	12.34
Rowe Price European 100 East Pratt St. Baltimore, MD 21202 800-638-5660	Europe PRESX www.troweprice.com	\$ 672	25.8	19.7	(6.7)	(20.7)	(18.7)	3.6	\$ 938	2.7%	Yes	1.01%	13.34
Lingleaf Partner's Int'l 6410 Poplar Ave. Suite 900 Memphis, TN 38119 800-445-9469	Int'l Growth LLINX www.lingleafpartners.com	\$ 1002	---	24.4	25.9	10.5	(16.5)	0.7	---	1.1%	#	1.79%	10.04
Rydex OTC Fund 6116 Executive Blvd. Suite 400 Bethesda, MD 20852 800-820-0888	CGA RYOCX www.rydexfunds.com	\$ 684	86.5	100.6	(37.8)	(34.7)	(38.6)	12.1	\$ 1046	0.0%	Yes	1.15%	7.61

x) Vanguard Index Extended and Small Cap funds charge purchase fees of 0.5% or less to defray expenses of broad diversification;  
annual expense ratios on these funds are extraordinarily low.

#) telephone redemption available

## INTEREST RATES / FIXED-INCOME INVESTING

**Marketimer's** fixed-income recommendations have a current weighted average yield of 4.27%, a weighted average maturity of 6.3 years, and a weighted average duration of 3.6. Duration is the weighted average of the times that interest payments and the final return of principal are received. A weighted average duration of 3.6 suggests that a one percent increase in corresponding interest rates would result in an estimated 3.6% decline in net asset value. This portfolio is designed for subscribers who invest all of their financial assets in the bond market.

Fund	Weighting	Yield	Average Maturity	Duration
Vanguard Ginnie Mae Fund (800-662-7447) (VFIIX)	35%	4.88%	2.5	2.0
Vanguard Inflation-Protected Securities (VIPSX)	25%	1.80%*	12.4	5.4
Vanguard High-Yield Corporate (VWEHX)	15%	7.16%	6.4	4.3
Dodge & Cox Income Fund (800-621-3979) (DODIX)	25%	4.14%	6.7	3.5

\* plus inflation adjustments based on the consumer price index and paid quarterly.

Subscribers seeking tax-exempt investment income can invest in state general obligation municipal bonds with maturities of 12 years or less. These bonds are date-certain maturities therefore repayment of principal is assured if they are solvent. The Monday **New York Times** financial section publishes weekly listings of upcoming tax-exempt new issue offerings.

Treasury Inflation Protected Securities (TIPS) can be purchased directly through the Treasury Direct website at [www.treasurydirect.gov](http://www.treasurydirect.gov) on periodic auction dates. Series I Savings Bonds remain attractive with added tax benefits for those not in need of current income, and with a time horizon of at least five years.

## INDIVIDUAL ISSUES

**Marketimer** recommends spreading individual company risk, and therefore suggests limiting exposure to any one company to no more than 4% of an equity portfolio. On March 11, we upgraded Microsoft to "buy" at a price of \$23, and we upgraded Vodafone to "buy" at a price of \$17 on that date. We continue to rate both of these stocks, as well as the exchange-traded funds on our list, as attractive for purchase anytime the Standard and Poor's 500 Index is trading below the 810 level.

Issue (Symbol)	Beta	Exchange	4-30 Price	Estimated earnings per share	
Microsoft (MSFT)	1.27	Nasdaq	25.56	1.04 (6-03)	1.07 (6-04)
Vodafone/AirTouch (VOD)	1.10	NYSE	19.76	0.99 (3-03)	1.13 (3-04)
S&P Dep. Receipts (SPY)	1.00	AMEX	91.91	4.71 (2003)	5.20 (2004)
Total Market VIPERs (VTI)	1.02	AMEX	86.24	n/a	
DJIA Diamonds (DIA)	0.92	AMEX	84.86	5.04 (2003)	5.74 (2004)
Nasdaq 100 Index (QQQ)	1.67	AMEX	27.45	n/a	

\* **Marketimer** estimates the 40 largest profitable companies in the Nasdaq 100 Index trade at an average P/E ratio of 35.5 times estimated 2003 operating earnings. These companies comprise about 74% of the Nasdaq 100 market capitalization.

## ACTIVE/PASSIVE PORTFOLIO

The **Marketimer** active/passive portfolio returned to a fully invested position on March 11 based on the Standard and Poor's 500 Index closing price of 800.73. This portfolio currently holds 90% of assets in Vanguard Total Stock Market Index, 5% in T. Rowe Price or Vanguard European, and 5% in Vanguard International Growth.

**MANAGED ACCOUNTS** – While **Marketimer** offers monthly guidance, professional investment management services are available at GE Private Asset Management, a money-management firm which invests in top performing no-load stock, bond and money-market funds. The minimum account size is \$100,000. For details call 800-252-2044.

## MARKETIMER NO-LOAD MUTUAL FUND MODEL PORTFOLIOS

The *Marketimer* no-load model portfolios are designed to provide investors seeking aggressive, growth and balanced objectives with a strategic approach to investing in no-load funds over the long-term.

Model Portfolio I is designed for investors with *aggressive growth* investment objectives. Such investors seek maximum returns and are willing and able to accept high levels of risk and volatility. Current income is not a factor in this portfolio.

Model Portfolio II is designed for investors with *long-term growth* objectives. Such investors seek to enhance the value of capital over time and assume a reasonable level of diversified market risk. Current income is not an important factor.

Model Portfolio III is designed as a *balanced* portfolio for current investment income along with capital preservation and modest growth. The portfolio is allocated evenly between equities and fixed-income securities. This portfolio is best suited to investors nearing or already enjoying a retirement lifestyle.

### MARKETIMER MODEL PORTFOLIO I

(\$20,000 value on 1-1-88)

<u>Current Holdings</u>	<u>Symbol</u>	<u>%</u>	<u>Beta</u>	<u>Value 4-30-03</u>	<u>% Change</u>
Baron Growth	BGRFX	15	0.82	\$ 21,328	
Baron Small Cap.	BSCFX	10	0.84	14,490	
T. Rowe Price European	PRESX	05	0.78	7,499	
Vanguard Int'l. Growth	VWIGX	05	0.76	7,096	
TIAA/CREF Equity Index	TCEIX	15	1.00	21,563	
Vanguard Total Stock Market	VTSMX	25	0.98	36,003	
Rydex OTC Fund	RYOCX	<u>25</u>	<u>2.01</u>	<u>36,235</u>	
		<u>100%</u>	<u>1.18</u>	<u>\$ 144,214</u>	<u>+ 621 %</u>

### MARKETIMER MODEL PORTFOLIO II

(\$20,000 value on 1-1-88)

<u>Current Holdings</u>	<u>Symbol</u>	<u>%</u>	<u>Beta</u>	<u>Value 4-30-03</u>	<u>% Change</u>
Gabelli Asset Fund	GABAX	15	0.78	\$ 17,827	
T. Rowe Price European	PRESX	05	0.78	6,136	
Dodge & Cox Stock Fund	DODGX	10	0.70	11,672	
Vanguard Int'l. Growth	VWIGX	05	0.76	5,805	
TIAA/CREF Equity Index	TCEIX	15	1.00	17,640	
Vanguard Total Stock Market	VTSMX	35	0.98	41,236	
Rydex OTC Fund	RYOCX	<u>15</u>	<u>2.01</u>	<u>17,787</u>	
		<u>100%</u>	<u>1.06</u>	<u>\$ 118,103</u>	<u>+ 491 %</u>

### MARKETIMER MODEL PORTFOLIO III

(\$40,000 value on 3-1-90)

<u>Current Holdings</u>	<u>Symbol</u>	<u>%</u>	<u>Beta</u>	<u>Value 4-30-03</u>	<u>% Change</u>
Vanguard Inflation Protected Securities	VIPSX	25	0.00	\$ 30,259	
Vanguard Ginnie Mae Fund	VFILX	25	0.00	31,197	
Rowe Price European	PRESX	02.5	0.78	3,712	
Dodge & Cox Stock Fund	DODGX	10	0.70	14,123	
TIAA/CREF Growth & Income	TIGIX	07.5	1.00	10,668	
Vanguard Int'l. Growth	VWIGX	02.5	0.76	3,512	
Vanguard Total Stock Market	VTSMX	22.5	0.98	32,078	
Rydex OTC Fund	RYOCX	<u>05</u>	<u>2.01</u>	<u>7,174</u>	
		<u>100%</u>	<u>0.50</u>	<u>\$ 132,723</u>	<u>+ 232 %</u>

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### HOW TO SUBSCRIBE TO *BOB BRINKER'S* MARKETIMER

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Suite 2060  
Ardsley, NY 10502

One-year subscription: \$185 (overseas subscribers add \$10)